

New documents suggest that Blackwater may have engaged in significant tax evasion, failing to withhold and pay millions of dollars in Social Security, Medicare, unemployment, and related taxes, and sought to conceal its conduct from Congress and law enforcement officials.

In a letter to Erik Prince, the Chairman of the Prince Group, which owns Blackwater, Chairman Waxman writes:

I have received documents which suggest that Blackwater may have engaged in significant tax evasion. According to an IRS ruling in March 2007, Blackwater violated federal tax laws by treating an armed guard as an “independent contractor.” The implication of this ruling is that Blackwater may have avoided paying millions of dollars in Social Security, Medicare, unemployment, and related taxes for which it is legally responsible.

Unlike DynCorp and Triple Canopy, the two other major private military contractors providing security services to the State Department in Iraq, Blackwater classifies its armed guards as independent contractors rather than as employees. Under federal tax laws, this classification has important ramifications. Businesses must pay Social Security, Medicare, and unemployment taxes for their employees. They must also withhold federal income taxes on their salaries. By classifying its armed guards and other personnel as independent contractors instead of employees, Blackwater has apparently evaded withholding and paying these taxes.

When you testified before our Committee on October 2, 2007, Congresswoman Norton asked you why Blackwater treats its security personnel as independent contractors, while your competitors treat their guards as employees. You responded that Blackwater treats its guards as contractors because you found “it is a model that works” and because your guards prefer the “flexibility” of an independent contractor relationship.

Since the hearing, I have learned that the IRS determined in March — six months prior to your testimony — that your classification of a security guard working in Afghanistan as an independent contractor was “without merit.” The IRS advised that “[y]ou are responsible for satisfying the employment tax reporting, filing, and payment obligations that result from this determination.” By its terms, the IRS ruling applied only to the individual security guard who protested his classification, but the IRS warned that its ruling “may be applicable to any other individuals engaged by the firm.” The logic of the ruling would appear to apply to your entire workforce in Iraq and Afghanistan.

There is also evidence that Blackwater has tried to conceal the IRS ruling and the evasion of taxes from Congress and law enforcement officials. The IRS determination was issued in response to an inquiry by an individual security guard who questioned his classification as an independent contractor. In June, Blackwater required this employee to sign a nondisclosure agreement before it agreed to pay the back pay and other compensation that he was owed. The terms of this agreement explicitly prohibited the guard from disclosing any information about Blackwater to “any politician” or “public official.” The agreement further provided: “THE UTMOST PROTECTION AND NONDISCLOSURE OF CONFIDENTIAL INFORMATION IS OF CRITICAL IMPORTANCE AND IS THE ESSENCE OF THIS AGREEMENT.”

Individuals with knowledge of potential tax evasion involving Blackwater or other federal contractors are encouraged to [contact the Committee through a tip line.](#)

Documents and Links

- [Letter to Blackwater Chairman Erik Prince](#)
- [March 30th Letter from IRS to Blackwater](#)
- [IRS-Related Confidentiality Agreement](#)